

DRAFT FISCAL NOTE

REQUEST NO.

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBER:
Office of the State Actuary	035	12/1/06	LEOFF 2 Deferred Compensation

SUMMARY OF BILL:

This bill impacts the Law Enforcement Officers' and Fire Fighters' Retirement System Plan 2 (LEOFF 2) by changing the definition of "basic salary" for retirement benefits. Under the new definition, basic salary would include all employer contributions to a member's deferred compensation account established in accordance with section 457 of the United States Internal Revenue Code--regardless of whether or not a matching member contribution is required.

Effective Date: July 1, 2011

CURRENT SITUATION:

Employer contributions to a member's 457 deferred compensation account that are based solely on services performed by the member are generally included in basic salary for retirement benefits. Employer contributions to 457 accounts that require a matching member contribution are generally excluded from basic salary.

MEMBERS IMPACTED:

Any of the 15,168 active members of LEOFF 2 who receive employer contributions to their 457 deferred compensation account may be impacted. An estimate of how many such members are actually receiving employer contributions that are not included in basic salary is not available.

A typical member impacted by this bill might realize an increase in their retirement benefit due to the higher final average salary used for the benefit computation.

ASSUMPTIONS:

We assume that the changes to the definition of basic salary would only apply to salaries that are earned after July 1, 2011. We further assume that increases in basic salary reported for pension purposes as a result of this bill would occur uniformly throughout a member's career.

FISCAL IMPACT:

Description:

This bill may increase the present value of benefits payable by the system by increasing the salaries used for benefit computations. However, any increase in benefits would be fully funded by member and employer contributions to the pension trust fund for the higher salary amounts being reported for pension purposes— as long as the increases do not occur solely at the end of a member's career. Employers and members may be required to make retirement system contributions on deferred salary amounts for which no contribution is currently being collected.

Actuarial Determinations:

Because any increase in liabilities would be entirely offset by a corresponding increase in assets from member and employer contributions, this bill will not impact the actuarial funding of the system.

Sensitivity Analysis:

If this bill were to result in salaries increasing primarily during the final average salary period and not over the course of a member's career, the resulting increase in pension benefits would not be fully paid for by the contributions collected. If this occurred for a sufficient number of members, there would likely be an impact on contribution rates.

We tested the sensitivity of contribution rates on the worst case scenario in which every LEOFF 2 member received additional salary increases late in their careers. We assumed for this exercise that the present value of future salaries did not increase as a result of the short term increases in salaries during members' final average salary periods. Under this worst case scenario, for every increase of one percent of final average salary, LEOFF 2 contribution rates would increase by 41 basis points.

STATEMENT OF DATA AND ASSUMPTIONS USED IN PREPARING THIS FISCAL NOTE:

The analysis presented in this draft fiscal note is based on our understanding of the bill as well as generally accepted actuarial standards of practice including the following:

1. The analysis was developed using the same membership data, methods, assets and assumptions as those used in preparing the preliminary September 30, 2005 actuarial valuation report of the Law Enforcement Officers' and Fire Fighters' Retirement System Plan 2.
2. The analysis of this bill does not consider any other proposed changes to the system. The combined effect of several changes to the system could exceed the sum of each proposed change considered individually.
3. This draft fiscal note is intended for use only during the 2007 Legislative Session.

GLOSSARY OF ACTUARIAL TERMS:

Actuarial Present Value: The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of Actuarial Assumptions (i.e. interest rate, rate of salary increases, mortality, etc.)